

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Chelsea	County Washtenaw
Audit Date June 30, 2005	Opinion Date October 4, 2005	Date Accountant Report Submitted To State: December 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 100 Oakbrook Drive, Suite 400	City Ann Arbor	State MI	ZIP 48178
Accountant Signature  			

# **City of Chelsea, Michigan**

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## **Financial Report with Supplemental Information for the Sixteen-month Period Ended June 30, 2005**

# City of Chelsea, Michigan

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## Independent Auditor's Report

To the Members of the City Council  
City of Chelsea, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chelsea, Michigan as of June 30, 2005 and for the sixteen-month period then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chelsea, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chelsea, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the sixteen-month period then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Members of the City Council  
City of Chelsea, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chelsea, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 4, 2005

# City of Chelsea, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Chelsea's financial performance provides an overview of the City's financial activities for the sixteen months ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the sixteen months ended June 30, 2005:

- The electorate approved a new City Charter establishing the City of Chelsea on March 8, 2004. Section 9.1 of the City Charter established the City's fiscal and budget year beginning on July 1 and ending on June 30. The Village of Chelsea's fiscal year began on March 1.

The City Manager sought guidance from the Michigan Department of Treasury Local Audit and Finance Division concerning this transition year. The City Manager requested and received approval to establish a sixteen-month budget and audit for the period beginning March 1, 2004 and ending June 30, 2005. Thereafter, the City would establish a twelve-month budget beginning July 1, 2005.

- The fund balance in the General Fund decreased from \$380,684 to \$155,407. This decrease was the result of expenses exceeding revenues due to the sixteen-month budget being funded with revenues that would essentially support a twelve-month budget. Major anticipated expenditure overruns included \$65,402 in police wages, \$93,000 in General Fund support of the Local Street Fund, \$76,151 in employee benefits, and \$65,962 to reconcile Chelsea's share of the Chelsea Area Fire Authority's fiscal year 2004-2005 budget. The City amended its budget accordingly to address these potential shortfalls.
- State-shared revenue, the City's second largest General Fund revenue source after real and personal property taxes and payment in lieu of taxes (PILOT), exceeded budget projections by \$41,896, resulting in total state-shared revenue of \$546,896. The amount received during the current fiscal year was \$78,802 greater than the previous year. However, this increase was the result of additional revenues received during the sixteen-month budget period.

The State of Michigan has held state-shared revenue steady over the past fiscal year. State-shared revenue for local governments mandated by the Michigan Constitution increased slightly due to increased sales tax collections statewide. However, the Legislature decreased statutory state-shared revenue for cities and villages, which offset any increases. The City has accommodated the loss of state-shared revenue since 2001 by decreasing core expenses where possible, decreasing fund balance, deferring capital improvement and capital equipment expenditures, and increasing support from Enterprise Funds and Special Revenue Funds for certain appropriate services that are performed by departments within the General Fund.

# City of Chelsea, Michigan

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## Management's Discussion and Analysis (Continued)

Unfortunately, increases in state-shared revenue support of local government are unlikely to come anytime soon, so conservative projections for this revenue source will be called for in future budgets.

- Cash and cash equivalents in the Electric Fund decreased from \$513,120 in the previous year to \$300 in the current year. Electric rates have not increased in over 15 years. Electric Fund revenues have been stable while the cost of electricity has been rising. The cost of electricity on a monthly average increased 11.17 percent compared to the prior fiscal year, while revenues from charges for services only increased 1.44 percent on a monthly average. A cost-of-service study is underway and results are expected mid-year of the 2005-2006 fiscal year.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Chelsea, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	February 29, 2004	June 30, 2005	February 29, 2004	June 30, 2005	February 29, 2004	June 30, 2005
<b>Assets</b>						
Current assets	\$ 3,603,228	\$ 4,070,667	\$ 2,678,779	\$ 2,681,022	\$ 6,282,007	\$ 6,751,689
Noncurrent assets	41,925,570	40,091,918	28,036,442	27,802,940	69,962,012	67,894,858
Total assets	45,528,798	44,162,585	30,715,221	30,483,962	76,244,019	74,646,547
<b>Liabilities</b>						
Current liabilities	559,584	885,029	2,058,822	1,918,469	2,618,406	2,803,498
Long-term liabilities	3,144,866	2,992,824	9,702,243	8,810,000	12,847,109	11,802,824
Total liabilities	3,704,450	3,877,853	11,761,065	10,728,469	15,465,515	14,606,322
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	39,620,832	37,839,757	16,949,418	17,816,517	56,570,250	55,656,274
Restricted	1,547,328	2,086,846	129,251	436,111	1,676,579	2,522,957
Unrestricted	656,188	358,129	1,875,487	1,502,865	2,531,675	1,860,994
Total net assets	<u>\$ 41,824,348</u>	<u>\$ 40,284,732</u>	<u>\$ 18,954,156</u>	<u>\$ 19,755,493</u>	<u>\$ 60,778,504</u>	<u>\$ 60,040,225</u>

The City's combined net assets decreased 1.21 percent from a year ago, decreasing from \$60.78 million to \$60.04 million. Total net assets related to the City's governmental activities decreased by 3.68 percent or \$1,539,616. Net capital assets being depreciated for governmental activities decreased by \$1,907,211.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by \$298,059 for the governmental activities. This represents a decrease of 45.42 percent. The current level of unrestricted net assets for the City's governmental activities is \$358,129, or 7.06 percent of total governmental expenditures, once adjusted for a twelve-month period. This is below a desired target level. Unrestricted net assets as a percentage of total governmental expenditures for the previous year was 10.28 percent. Typically, a range of 20 percent to 30 percent is desired.



# City of Chelsea, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	Year Ended February 29, 2004	Sixteen Months Ended June 30, 2005	Year Ended February 29, 2004	Sixteen Months Ended June 30, 2005	Year Ended February 29, 2004	Sixteen Months Ended June 30, 2005
<b>Net Assets - Beginning of year</b> (as restated)	\$ 43,900,137	\$ 41,824,346	\$ 19,246,999	\$ 19,265,906	\$ 63,147,136	\$ 61,090,252
<b>Revenue</b>						
Program revenue:						
Charges for services	749,614	1,038,595	7,283,784	10,026,410	8,033,398	11,065,005
Capital grants and contributions	346,664	459,307	595,182	1,811,225	941,846	2,270,532
General revenue:						
Property taxes	2,538,696	2,973,344	35,626	77,596	2,574,322	3,050,940
State-shared revenue	451,456	583,151	-	-	451,456	583,151
Unrestricted investment earnings	66,134	175,093	73,102	41,365	139,236	216,458
Transfers and other revenue	153,766	(9,196)	(153,766)	9,196	-	-
Total revenue	4,306,330	5,220,294	7,833,928	11,965,792	12,140,258	17,186,086
<b>Program Expenses</b>						
General government	1,018,494	1,487,815	-	-	1,018,494	1,487,815
Public safety	1,479,926	1,409,600	-	-	1,479,926	1,409,600
Public works	3,783,214	3,514,004	-	-	3,783,214	3,514,004
Community and economic development	-	229,142	-	-	-	229,142
Recreation and culture	41,295	46,236	-	-	41,295	46,236
Interest on long-term debt	59,190	73,111	-	-	59,190	73,111
Water, sewer, and electric	-	-	8,126,771	11,476,205	8,126,771	11,476,205
Total program expenses	6,382,119	6,759,908	8,126,771	11,476,205	14,508,890	18,236,113
<b>Change in Net Assets</b>	(2,075,789)	(1,539,614)	(292,843)	489,587	(2,368,632)	(1,050,027)
<b>Net Assets - End of year</b>	<u>\$ 41,824,348</u>	<u>\$ 40,284,732</u>	<u>\$ 18,954,156</u>	<u>\$ 19,755,493</u>	<u>\$ 60,778,504</u>	<u>\$ 60,040,225</u>

### Governmental Activities

The City's total revenues for governmental activities were \$5,220,294, an increase of 21.22 percent from the previous year.

Expenses were \$6,759,908 during the year, an increase of 5.92 percent from the previous year. Many expenses increased due to the sixteen-month fiscal year.

In the General Fund, the actual property tax revenues compared to the budgeted revenues shows a shortfall of \$181,209. This variance is primarily the result of the practice of applying property tax refunds and tax increment finance district transfers against budgeted revenues rather than creating an expenditure line item for these items.

# **City of Chelsea, Michigan**

## **Management's Discussion and Analysis (Continued)**

City departments in the General Fund exceeded the original budget overall by more than \$276,000. Major expenditure overruns include police wages, employee health care insurance and wage-based benefits, fuel costs, planning and zoning professional services, and the reconciliation of Chelsea's share of the Chelsea Area Fire Authority's fiscal year 2004-2005 budget. These overruns were offset by deferral of certain maintenance projects and capital purchases, and a decrease in legal expenses.

### **Business-type Activities**

The City's business-type activities consist of the Water, Sewer, and Electric Funds. The City provides water to residents from five groundwater wells and processes the water through a water treatment plant that provides iron removal and reverse osmosis softening. Sewage treatment is provided through a City-owned and operated sewage treatment plant. The City provides electrical service to its residents and businesses with power purchase agreements with the Michigan Public Power Agency and Constellation Energy.

The City contracted with Utility Financial Solutions to conduct a comprehensive cost-of-service study for its water, sewer, and electric utilities. Initial drafts of the study will have indicated the need for rate increases for all three services over the next five years.

The Electric Fund had an operating loss of \$727,408 primarily due to an increase in the cost of electricity, especially transmission costs as these generation and transmission components of the electric grid are broken apart. The Wastewater (Sewer) Fund had an operating loss of \$455,292. This loss was offset by customer connection fees due to significant development that took place during the current year. The Water Fund recorded operating income of \$110,397 primarily due to lower personnel expenses as well as the effect of a water rate increase in February 2004. The Water Fund also received significant revenue from customer connection fees.

### **The City's Funds**

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for the current year include the General Fund, the Coliseum Drive Capital Project Fund, and Major Roads Fund.

An analysis of the General Fund was presented earlier in this discussion and analysis.

### **Capital Asset and Debt Administration**

As of June 30, 2005, the City had approximately \$67.2 million (net of depreciation) invested in a broad range of capital assets including roads, buildings, equipment, and water, sewer, and electric lines.

# **City of Chelsea, Michigan**

## **Management's Discussion and Analysis (Continued)**

On November 30, 2004, Moody's Investor Service affirmed their A3 rating on the City's outstanding \$630,000 general obligation unlimited tax debt.

More detailed information concerning capital assets and long-term debt can be found in Notes 4 and 6, respectively, in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

The City's 2005-2006 fiscal year budget was able to maintain the same property tax rate. This is primarily the result of growth in the City's tax base. A State-imposed moratorium on new water lines as well as hydraulic capacity problems in the wastewater system has temporarily stopped several large developments in the City including the future phases of the Heritage Pointe Development. This may have implications for property tax growth in the 2006-2007 fiscal year.

The temporary suspension of development may also affect projected utility connection revenues for the 2005-2006 fiscal year budget depending on whether the solutions to water system firm capacity and wastewater system hydraulic capacity problem can be in place to allow developments to proceed in the last quarter of the 2005-2006 fiscal year.

The City's commercial and industrial areas continue to be viable. Expansion of one of Chelsea's major employer's facility is expected in the next year. Redevelopment of the Chelsea Clocktower continues to proceed and the spaces are being leased. The Clocktower is expected to become a commercial destination for persons inside and outside of the Chelsea area.

The City Council may be requested during the 2005-2006 fiscal year to implement rate increases for the water, wastewater, and electric utilities following the results of the cost-of-service study to be presented in the third quarter of the fiscal year. The connection fees, which have been a major source of revenue to the Water and Sewer Funds, may have to be reexamined based on feedback that these fees are making Chelsea uncompetitive in attracting new businesses to the City.

The wide fluctuations in the City's contributions to the Chelsea Area Fire Authority are having serious impact on the General Fund budget. This is based on the formula used to determine budget share set forth in the intergovernmental agreement and may not stabilize in the near future.

The City is exploring options for a new municipal office facility, police station, and a possible public works building expansion. These projects may require the issuance of bonds.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's office.

# City of Chelsea, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
<b>Assets</b>				
Cash and investments (Note 2)	\$ 2,522,135	\$ 1,444,232	\$ 3,966,367	\$ 299,734
Receivables:				
Taxes	37,903	-	37,903	-
Customers	11,538	1,062,980	1,074,518	-
Special assessments (Note 3)	680,505	-	680,505	-
Other	61,656	-	61,656	203
Internal balances	558,556	(558,556)	-	-
Due from other governmental units	198,374	250,000	448,374	-
Inventories	-	477,833	477,833	-
Prepaid costs and other assets	-	4,533	4,533	-
Restricted assets (Note 7)	-	436,111	436,111	-
Investment in joint ventures (Note 10)	293,298	-	293,298	-
Capital assets - Net (Note 4):				
Nondepreciated	4,539,575	1,784,331	6,323,906	586,737
Depreciated	35,259,045	25,582,498	60,841,543	1,829,448
Total assets	44,162,585	30,483,962	74,646,547	2,716,122
<b>Liabilities</b>				
Accounts payable	80,370	923,139	1,003,509	60,003
Accrued and other liabilities	179,493	160,172	339,665	65
Tax anticipation note	304,200	-	304,200	-
Noncurrent liabilities (Note 6):				
Due within one year	320,966	835,158	1,156,124	120,000
Due in more than one year	2,992,824	8,810,000	11,802,824	560,000
Total liabilities	3,877,853	10,728,469	14,606,322	740,068
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	37,839,757	17,816,517	55,656,274	1,736,185
Restricted:				
Streets and highways	1,368,751	-	1,368,751	-
Law enforcement	165,496	-	165,496	-
Solid waste activities	137,764	-	137,764	-
Storm water utility	41,955	-	41,955	-
Debt service	336,592	436,111	772,703	-
Capital projects	36,288	-	36,288	-
Unrestricted	358,129	1,502,865	1,860,994	239,869
Total net assets	<u>\$ 40,284,732</u>	<u>\$ 19,755,493</u>	<u>\$ 60,040,225</u>	<u>\$ 1,976,054</u>

# City of Chelsea, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,487,815	\$ 312,609	\$ 2,876	\$ -
Public safety	1,409,600	-	33,582	-
Public works	3,514,004	655,245	422,849	-
Community and economic development	229,142	70,741	-	-
Recreation and culture	46,236	-	-	-
Interest on long-term debt	73,111	-	-	-
Total governmental activities	6,759,908	1,038,595	459,307	-
Business-type activities:				
Water	1,919,392	1,724,246	-	1,001,165
Sewer	1,438,985	932,123	-	806,560
Electric	8,117,828	7,370,041	-	3,500
Total business-type activities	11,476,205	10,026,410	-	1,811,225
Total primary government	<u>\$ 18,236,113</u>	<u>\$ 11,065,005</u>	<u>\$ 459,307</u>	<u>\$ 1,811,225</u>
Component units:				
Downtown Development Authority	\$ 212,150	\$ -	\$ -	\$ -
Economic Development Corporation	386	-	-	-
Total component units	<u>\$ 212,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Transfers				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of period - As restated (Note 11)</b>				
<b>Net Assets - End of period</b>				

**Statement of Activities**  
**Sixteen-month Period Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,172,330)	\$ -	\$ (1,172,330)	\$ -
(1,376,018)	-	(1,376,018)	-
(2,435,910)	-	(2,435,910)	-
(158,401)	-	(158,401)	-
(46,236)	-	(46,236)	-
(73,111)	-	(73,111)	-
(5,262,006)	-	(5,262,006)	-
-	806,019	806,019	-
-	299,698	299,698	-
-	(744,287)	(744,287)	-
-	361,430	361,430	-
(5,262,006)	361,430	(4,900,576)	-
-	-	-	(212,150)
-	-	-	(386)
-	-	-	(212,536)
2,973,344	77,596	3,050,940	498,013
583,151	-	583,151	-
175,093	41,365	216,458	2,217
(9,196)	9,196	-	-
3,722,392	128,157	3,850,549	500,230
(1,539,614)	489,587	(1,050,027)	287,694
41,824,346	19,265,906	61,090,252	1,688,360
<b>\$ 40,284,732</b>	<b>\$ 19,755,493</b>	<b>\$ 60,040,225</b>	<b>\$ 1,976,054</b>

# City of Chelsea, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	Major Funds				Total Governmental Funds
	General	Coliseum Drive	Major Roads	Other Nonmajor Funds	
<b>Assets</b>					
Cash and investments (Note 2)	\$ 120,788	\$ 36,285	\$ 759,252	\$ 1,605,810	\$ 2,522,135
Receivables:					
Taxes	31,647	-	-	6,256	37,903
Customers	-	-	-	11,538	11,538
Special assessments (Note 3)	-	680,505	-	-	680,505
Other	59,384	-	-	-	59,384
Due from other funds (Note 5)	450,187	-	12,298	384,150	846,635
Due from other governmental units	57,191	-	43,363	15,755	116,309
Total assets	<u>\$ 719,197</u>	<u>\$ 716,790</u>	<u>\$ 814,913</u>	<u>\$ 2,023,509</u>	<u>\$ 4,274,409</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 49,928	\$ -	\$ 14,601	\$ 12,027	\$ 76,556
Accrued and other liabilities	130,020	-	-	21,868	151,888
Due to other funds (Note 5)	79,642	-	11,789	89,470	180,901
Tax anticipation note	304,200	-	-	-	304,200
Deferred revenue (Note 3)	-	680,502	-	-	680,502
Total liabilities	563,790	680,502	26,390	123,365	1,394,047
<b>Fund Balances</b>					
Reserved for:					
Streets and highways	-	-	733,012	580,228	1,313,240
Law enforcement	-	-	-	165,496	165,496
Solid waste maintenance	-	-	-	137,764	137,764
Storm water utility	-	-	-	41,955	41,955
Debt service	-	-	-	336,592	336,592
Unreserved, designated for subsequent year's budget	-	-	55,511	-	55,511
Unreserved, reported in:					
General Fund	155,407	-	-	-	155,407
Special Revenue Funds	-	-	-	372,040	372,040
Capital Projects Funds	-	36,288	-	266,069	302,357
Total fund balances	<u>155,407</u>	<u>36,288</u>	<u>788,523</u>	<u>1,900,144</u>	<u>2,880,362</u>
Total liabilities and fund balances	<u>\$ 719,197</u>	<u>\$ 716,790</u>	<u>\$ 814,913</u>	<u>\$ 2,023,509</u>	<u>\$ 4,274,409</u>

# City of Chelsea, Michigan

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## **Governmental Funds Reconciliation of Fund Balances of Governmental Funds to the Statement of Net Assets Sixteen-month Period Ended June 30, 2005**

<b>Total Fund Balances of Governmental Funds</b>	\$ 2,880,362
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	39,798,620
--	------------

Revenue sharing due from State not received within 60 days of year end is not available currently and is not recorded in the funds	82,065
--	--------

Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	680,502
---	---------

Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,313,790)
---	-------------

Investments in joint ventures are not financial resources and are not reported in the funds	293,298
---	---------

Interest amounts on long-term liabilities are not payable until due in the funds	(20,315)
--	----------

Internal Service Funds are included as part of governmental activities	<u>(116,010)</u>
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<b>Net Assets of Governmental Activities</b>	<b><u><u>\$ 40,284,732</u></u></b>
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# City of Chelsea, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Sixteen-month Period Ended June 30, 2005

	Major Funds			Other	Total
	General	Coliseum Drive	Major Roads	Nonmajor Funds	Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 2,508,357	\$ -	\$ -	\$ 464,987	\$ 2,973,344
Special assessments	-	80,756	-	-	80,756
State sources	551,985	-	337,147	85,702	974,834
Local sources	-	-	-	33,541	33,541
License and permits	166,232	-	-	-	166,232
Charges for services	10,627	-	-	655,245	665,872
Fines and forfeitures	21,448	-	-	-	21,448
Interest and other	246,564	84,032	29,060	30,580	390,236
Total revenue	3,505,213	164,788	366,207	1,270,055	5,306,263
<b>Expenditures</b>					
General government	837,211	-	7,717	295,529	1,140,457
Public safety	1,139,841	-	-	-	1,139,841
Public works	528,062	-	182,565	591,190	1,301,817
Parks and recreation	45,436	-	-	-	45,436
Planning and zoning	229,142	-	-	-	229,142
Employee benefits and insurance	783,770	-	-	-	783,770
Debt service	-	160,056	-	187,253	347,309
Total expenditures	3,563,462	160,056	190,282	1,073,972	4,987,772
<b>Excess of Revenue Over (Under) Expenditures</b>	(58,249)	4,732	175,925	196,083	318,491
<b>Other Financing Sources (Uses)</b>					
Transfers in	28,720	-	302,600	585,852	917,172
Transfers out	(195,748)	-	(76,550)	(654,070)	(926,368)
Total other financing sources (uses)	(167,028)	-	226,050	(68,218)	(9,196)
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	(225,277)	4,732	401,975	127,865	309,295
<b>Fund Balances - Beginning of period</b>	380,684	31,556	386,548	1,772,279	2,571,067
<b>Fund Balances - End of period</b>	<u>\$ 155,407</u>	<u>\$ 36,288</u>	<u>\$ 788,523</u>	<u>\$ 1,900,144</u>	<u>\$ 2,880,362</u>

# City of Chelsea, Michigan

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## Governmental Funds

### Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Sixteen-month Period Ended June 30, 2005

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 309,295</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(2,015,984)
Revenue sharing is recorded in the statement of activities when the revenue is earned; it is not reported in the funds until collected or collectible within 60 days of year end	31,166
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(118,838)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	195,000
Change in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(53,059)
Payment of landfill post-closure costs is an expenditure in the governmental funds, but not in the statement of activities (where it reduces the long-term liability)	60,000
Change in the equity interest in the Chelsea Area Construction Agency is not reported in the governmental funds	22,860
Change in the equity interest in the Chelsea Area Fire Authority is not reported in the governmental funds	55,700
Accrued interest payable is recorded when due in governmental funds	19,198
Internal Service Funds are also included as governmental activities	(44,952)
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ (1,539,614)</u></b>

# City of Chelsea, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2005

	Enterprise Funds - Major Funds				Internal Service Fund
	Water	Sewer	Electric	Total Major Funds	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents (Note 2)	\$ 506,964	\$ 936,968	\$ 300	\$ 1,444,232	\$ -
Receivables:					
Customers	208,932	98,612	755,436	1,062,980	-
Other	-	-	-	-	2,272
Due from other governmental units	142,500	107,500	-	250,000	-
Due from other funds (Note 5)	-	-	-	-	10,458
Inventories	80,689	-	397,144	477,833	-
Prepaid costs and other assets	-	4,533	-	4,533	-
Total current assets	939,085	1,147,613	1,152,880	3,239,578	12,730
Long-term assets:					
Restricted assets (Note 7)	202,575	233,536	-	436,111	-
Capital assets (Note 4)	11,731,606	12,357,489	3,277,734	27,366,829	216,397
Total assets	12,873,266	13,738,638	4,430,614	31,042,518	229,127
<b>Liabilities</b>					
Current liabilities:					
Current portion of long-term liabilities	416,746	105,648	137,765	660,159	15,966
Accounts payable	214,716	164,179	544,244	923,139	3,814
Accrued and other liabilities	70,065	8,439	81,668	160,172	7,290
Due to other funds (Note 5)	304,214	-	254,342	558,556	117,636
Total current liabilities	1,005,741	278,266	1,018,019	2,302,026	144,706
Long-term liabilities - Net of current portion	8,184,999	800,000	-	8,984,999	47,897
Total liabilities	9,190,740	1,078,266	1,018,019	11,287,025	192,603
<b>Net Assets</b>					
Investment in capital assets - Net of related debt	3,136,607	11,492,489	3,187,421	17,816,517	152,534
Restricted for bond reserves/debt service	202,575	233,536	-	436,111	-
Unrestricted	343,344	934,347	225,174	1,502,865	(116,010)
Total net assets	<u>\$ 3,682,526</u>	<u>\$ 12,660,372</u>	<u>\$ 3,412,595</u>	<u>\$ 19,755,493</u>	<u>\$ 36,524</u>

# City of Chelsea, Michigan

## Proprietary Funds

### Statement of Revenue, Expenses, and Changes in Net Assets

### Sixteen-month Period Ended June 30, 2005

	Enterprise Funds - Major Funds				Internal Service Fund
	Water	Sewer	Electric	Total Major Funds	
<b>Operating Revenue</b>					
Charges for services	\$ 1,673,527	\$ 916,738	\$ 7,292,313	\$ 9,882,578	\$ 304,370
Other	50,719	15,385	77,728	143,832	9,187
Total operating revenue	1,724,246	932,123	7,370,041	10,026,410	313,557
<b>Operating Expenses</b>					
Cost of electricity	-	-	5,855,968	5,855,968	-
Operation and maintenance	303,002	284,361	269,070	856,433	153,547
General and administrative	596,652	489,747	953,919	2,040,318	160,329
Professional/Contractor services	211,160	92,405	189,961	493,526	-
Payment in lieu of taxes	-	-	458,250	458,250	-
Depreciation and amortization	463,570	494,179	331,777	1,289,526	45,689
Other	39,465	26,723	38,504	104,692	222
Total operating expenses	1,613,849	1,387,415	8,097,449	11,098,713	359,787
<b>Operating Income (Loss)</b>	110,397	(455,292)	(727,408)	(1,072,303)	(46,230)
<b>Nonoperating Revenue (Expense)</b>					
Property taxes	-	77,596	-	77,596	-
Interest income	6,142	29,812	5,411	41,365	1,278
Interest expense	(305,543)	(51,570)	(20,379)	(377,492)	-
Total nonoperating revenue (expense)	(299,401)	55,838	(14,968)	(258,531)	1,278
<b>Income (Loss) - Before transfers</b>	(189,004)	(399,454)	(742,376)	(1,330,834)	(44,952)
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	75,512	75,512	-
Transfers out	(26,284)	(40,032)	-	(66,316)	-
Total other financing sources (uses)	(26,284)	(40,032)	75,512	9,196	-
<b>Capital Contributions</b>					
Donated lines	104,428	108,506	-	212,934	-
Customer connection fees	754,237	590,554	3,500	1,348,291	-
Federal contributions	142,500	107,500	-	250,000	-
Total capital contributions	1,001,165	806,560	3,500	1,811,225	-
<b>Change in Net Assets</b>	785,877	367,074	(663,364)	489,587	(44,952)
<b>Net Assets - Beginning of period - As restated (Note 11)</b>	2,896,649	12,293,298	4,075,959	19,265,906	81,476
<b>Net Assets - End of period</b>	<u>\$ 3,682,526</u>	<u>\$ 12,660,372</u>	<u>\$ 3,412,595</u>	<u>\$ 19,755,493</u>	<u>\$ 36,524</u>

The Notes to Financial Statements are an Integral Part of this Statement.

# City of Chelsea, Michigan

## Proprietary Funds Statement of Cash Flows Sixteen-month Period Ended June 30, 2005

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Electric	Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,650,934	\$ 929,607	\$ 7,434,119	\$ 315,437
Payments to suppliers	(1,359,237)	(513,316)	(6,465,147)	(198,931)
Payments to employees	(410,616)	(350,347)	(630,054)	(119,106)
Internal activity - Payments from (to) other funds	14	(315)	(632,480)	83,210
Net cash provided by (used in) operating activities	(118,905)	65,629	(293,562)	80,610
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfers to other funds	(26,284)	(40,032)	-	-
Internal activity - Payments from other funds	304,200	-	-	-
Net cash provided by (used in) noncapital financing activities	277,916	(40,032)	-	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Collection of customer assessments (principal and interest)	-	46,980	-	-
Collection of property taxes	-	77,596	-	-
Transfers from other funds	-	-	75,512	-
Connection fees	754,237	590,554	3,500	-
Purchase of capital assets	(125,813)	(302,373)	(112,997)	(149,461)
Proceeds from issuance of long-term debt	19,617	-	-	63,863
Principal and interest paid on capital debt	(642,730)	(366,570)	(190,684)	-
Net cash provided by (used in) capital and related financing activities	5,311	46,187	(224,669)	(85,598)
<b>Cash Flows from Investing Activities</b>				
Interest received on investments	6,142	15,057	5,411	1,278
Sale of investment securities	-	33,067	-	-
Net cash provided by investing activities	6,142	48,124	5,411	1,278
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	170,464	119,908	(512,820)	(3,710)
<b>Cash and Cash Equivalents - Beginning of period</b>	539,075	876,058	513,120	3,710
<b>Cash and Cash Equivalents - End of period</b>	<u>\$ 709,539</u>	<u>\$ 995,966</u>	<u>\$ 300</u>	<u>\$ -</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents and Restricted Cash</b>				
Cash and investments	\$ 506,964	\$ 936,968	\$ 300	\$ -
Restricted investments (Note 7)	202,575	58,998	-	-
Total cash and cash equivalents	<u>\$ 709,539</u>	<u>\$ 995,966</u>	<u>\$ 300</u>	<u>\$ -</u>

# City of Chelsea, Michigan

## Proprietary Funds Statement of Cash Flows (Continued) Sixteen-month Period Ended June 30, 2005

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Electric	
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 110,397	\$ (455,292)	\$ (727,408)	\$ (46,230)
Adjustments to reconcile operating (loss) to net cash from operating activities:				
Depreciation and amortization	463,570	494,179	331,777	45,689
Changes in assets and liabilities:				
Customer receivables	(73,312)	(2,516)	59,478	1,880
Prepaid and other assets	10,450	567	-	-
Due from other funds	-	-	-	10,574
Inventories	(7,783)	-	78,377	-
Accounts payable	(183,527)	27,644	126,707	(4,255)
Accrued and other liabilities	(438,714)	1,362	11,737	316
Due to other funds	14	(315)	(174,230)	72,636
Net cash provided by (used in) operating activities	<u>\$ (118,905)</u>	<u>\$ 65,629</u>	<u>\$ (293,562)</u>	<u>\$ 80,610</u>

**Noncash Investing, Capital, and Financing Activities** - During the 16-month period ended June 30, 2005, developers contributed water and sewer lines to the City in the amount of \$104,428 and \$108,506, respectively. These lines were recorded as capital assets.

# City of Chelsea, Michigan

## Component Units Statement of Net Assets June 30, 2005

	Downtown Development Authority	Economic Development Corporation	Totals
<b>Assets</b>			
Cash and investments (Note 2)	\$ 298,841	\$ 893	\$ 299,734
Receivables	203	-	203
Capital assets (Note 4)	2,416,185	-	2,416,185
Total assets	2,715,229	893	2,716,122
<b>Liabilities</b>			
Accounts payable	60,003	-	60,003
Accrued and other liabilities	65	-	65
Noncurrent liabilities (Note 6):			
Due within one year	120,000	-	120,000
Due in more than one year	560,000	-	560,000
Total liabilities	740,068	-	740,068
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	1,736,185	-	1,736,185
Unrestricted	238,976	893	239,869
Total net assets	<u>\$ 1,975,161</u>	<u>\$ 893</u>	<u>\$ 1,976,054</u>

# City of Chelsea, Michigan

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	Expenses	Program Revenues
Downtown Development Authority - Community and economic development	\$ 212,150	\$ -
Economic Development Corporation - Community and economic development	386	-
Total governmental activities	<u>\$ 212,536</u>	<u>\$ -</u>
General revenues:		
Property taxes		
Interest		
Total general revenues		
<b>Change in Net Assets</b>		
<b>Net Assets - Beginning of period</b>		
<b>Net Assets - End of period</b>		



**Component Units**  
**Statement of Activities**  
**Sixteen-month Period Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (212,150)	\$ -	\$ (212,150)
<u>-</u>	<u>(386)</u>	<u>(386)</u>
(212,150)	(386)	(212,536)
498,013	-	498,013
<u>2,214</u>	<u>3</u>	<u>2,217</u>
500,227	3	500,230
288,077	(383)	287,694
<u>1,687,084</u>	<u>1,276</u>	<u>1,688,360</u>
<u><b>\$ 1,975,161</b></u>	<u><b>\$ 893</b></u>	<u><b>\$ 1,976,054</b></u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Chelsea, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### **Blended Component Units**

The City of Chelsea Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct City capital assets.

#### **Discretely Presented Component Units**

The following component units are reported within the component units column in the financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 13 individuals, is selected by the City president. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is selected by the City president.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Coliseum Drive Fund** - The Coliseum Drive Fund is a Capital Project Fund that was created to account for the construction of the Coliseum Drive, funded through a special assessment.

**Major Roads Fund** - The Major Roads Fund is used to account for the resources of state gas and weight tax revenues that are restricted for use on major roads.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system, financed primarily by a user charge for the provision of those services.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewer collection system, financed primarily by a user charge for the provision of those services.

**Electric Fund** - The Electric Fund accounts for the activities of the electric distribution system, financed primarily by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Capital Project Fund** - The Capital Project Fund is used to account for the construction of a new City office building. Revenues consist of interest income on investments and transfers from other funds for debt service.

**Debt Service Funds** - Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

**Internal Service Fund** - The Internal Service Fund is used to account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer, and electric functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The 2004 taxable valuation of the City totaled approximately \$194,063,000, on which ad valorem taxes levied consisted of 10.4896 mills for the City's general operating purposes, 1.5594 mills for street improvements, 0.4469 mills for solid waste operations, 0.3900 mills for sewer-related debt service, and 0.3250 mills for Building Authority debt service. The ad valorem taxes levied raised approximately \$1,980,000 for operations (which are net of various refunds and TIFA transfers paid during the period ended June 30, 2005 approximating \$124,000), approximately \$310,000 for street improvements, approximately \$89,000 for solid waste operations, approximately \$65,000 for Building Authority debt service, and approximately \$78,000 for sewer-related debt service. In addition, the General Fund received various payments in lieu of taxes during the period approximating \$529,000. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Debt Service Fund financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis.

**Restricted Assets** - The restricted assets in the Water and Sewer Funds consist of cash and cash equivalents, investments, and property tax and assessments receivable restricted to provide debt service principal and interest.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Governmental activities:

Roads and sidewalks	11 to 50 years
Buildings and improvements	50 years
Vehicles	3 to 15 years
Equipment	5 to 20 years

Business-type activities:

Land improvements	20 years
Infrastructure	10 to 50 years
Vehicles	5 to 15 years
Equipment	5 to 10 years
Office equipment	5 to 10 years
Building	20 to 50 years
Water tower	10 to 50 years
Special assessment district	50 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data** - Comparative data is not included in the City's financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated four banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, commercial paper rated within the two highest classifications, with matures more than 270 days after the date of purchase, repurchase agreements, bankers' acceptances of U.S. banks, mutual funds, and investment pools. The City's deposits and investment policies are in accordance with statutory authority.



### Note 2 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$3,346,230 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>
Interlocal Agreement Fund	\$ 202,575	Not rated

### Note 3 - Receivables/Deferred Revenue

On the fund-based financial statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, \$680,502 of the deferred revenue balance was comprised of special assessments, which are unavailable in the governmental funds.

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance March 1, 2004	Additions	Disposals	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 4,539,575	\$ -	\$ -	\$ 4,539,575
Capital assets being depreciated:				
Roads and sidewalks	49,703,632	78,654	-	49,782,286
Buildings and improvements	693,076	-	-	693,076
Vehicles	452,462	68,147	(13,090)	507,519
Equipment	1,272,445	140,010	-	1,412,455
Subtotal	52,121,615	286,811	(13,090)	52,395,336
Accumulated depreciation:				
Roads and sidewalks	13,431,950	2,006,759	-	15,438,709
Buildings and improvements	291,749	11,991	-	303,740
Vehicles	372,002	39,113	(13,090)	398,025
Equipment	854,657	141,160	-	995,817
Subtotal	14,950,358	2,199,023	(13,090)	17,136,291
Net capital assets being depreciated	37,171,257	(1,912,212)	-	35,259,045
Net capital assets	<u>\$ 41,710,832</u>	<u>\$ (1,912,212)</u>	<u>\$ -</u>	<u>\$ 39,798,620</u>

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

	Balance March 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Business-type Activities</b>				
Capital assets not being depreciated -				
Land	\$ 1,784,331	\$ -	\$ -	\$ 1,784,331
Capital assets being depreciated:				
Land improvements	45,500	-	-	45,500
Infrastructure	10,315,370	660,759	-	10,976,129
Vehicles	517,107	26,021	-	543,128
Equipment	12,706,576	264,323	-	12,970,899
Office equipment	91,863	-	-	91,863
Building	9,691,916	27,518	-	9,719,434
Water tower	510,306	-	-	510,306
Special assessment district	549,194	-	-	549,194
Subtotal	34,427,832	978,621	-	35,406,453
Accumulated depreciation:				
Land improvements	30,711	3,033	-	33,744
Infrastructure	3,624,069	328,630	-	3,952,699
Vehicles	334,740	49,996	-	384,736
Equipment	1,488,552	610,527	-	2,099,079
Office equipment	91,271	592	-	91,863
Building	2,800,922	265,926	-	3,066,848
Water tower	82,351	15,611	-	97,962
Special assessment district	82,379	14,645	-	97,024
Subtotal	8,534,995	1,288,960	-	9,823,955
Net capital assets being depreciated	25,892,837	(310,339)	-	25,582,498
Net capital assets	<u>\$ 27,677,168</u>	<u>\$ (310,339)</u>	<u>\$ -</u>	<u>\$ 27,366,829</u>

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 11,554
Public safety	21,546
Public works	2,158,294
Recreation and culture	<u>2,628</u>

Total governmental activities	<u>\$ 2,194,022</u>
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Business-type activities:

Water	\$ 463,570
Sewer	493,612
Electric	<u>331,777</u>

Total business-type activities	<u>\$ 1,288,959</u>
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Capital asset activity of the City's component units was as follows:

	Balance March 1, 2004	Additions	Disposals and Adjustments	Balance February 29, 2005
<b>Component Units</b>				
Capital assets not being depreciated -				
Land	\$ 586,737	\$ -	\$ -	\$ 586,737
Capital assets being depreciated:				
Land improvements	1,891,530	60,000	-	1,951,530
Equipment	<u>18,914</u>	<u>94,060</u>	<u>-</u>	<u>112,974</u>
Subtotal	1,910,444	154,060	-	2,064,504
Accumulated depreciation:				
Land improvements	115,720	104,481	-	220,201
Equipment	<u>6,702</u>	<u>8,153</u>	<u>-</u>	<u>14,855</u>
Subtotal	<u>122,422</u>	<u>112,634</u>	<u>-</u>	<u>235,056</u>
Net capital assets being depreciated	<u>1,788,022</u>	<u>41,426</u>	<u>-</u>	<u>1,829,448</u>
Net capital assets	<u>\$ 2,374,759</u>	<u>\$ 41,426</u>	<u>\$ -</u>	<u>\$ 2,416,185</u>

**Construction Commitments** - The City has no active construction projects at year end.

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Roads Fund	\$ 9,306
	Water Fund	304,200
	Other nonmajor governmental funds	<u>136,681</u>
	Total General Fund	450,187
Special Revenue Fund -		
Major Roads Fund	Other nonmajor governmental funds	12,298
Other governmental funds	General Fund	79,642
	Water Fund	14
	Electric Fund	254,342
	Other nonmajor governmental funds	<u>50,152</u>
	Total other governmental funds	<u>384,150</u>
	Total governmental funds	846,635
Proprietary fund - Vehicle		
and Equipment Fund	Major Roads Fund	2,483
	Other nonmajor governmental funds	<u>7,975</u>
	Total Vehicle and Equipment Fund	<u>10,458</u>
	Total	<u><u>\$ 857,093</u></u>

Interfund balances represent routine and temporary cash flow assistance resulting from normal interfund activity until the amounts can be reimbursed between the funds.

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

	Transfers Out					Total
	General Fund	Major Roads Fund	Water Fund	Sewer Fund	Other Governmental Funds	
Transfers in:						
General Fund (1)	\$ -	\$ -	\$ -	\$ 15,000	\$ 13,720	\$ 28,720
Major Roads Fund (1)	-	-	-	-	302,600	302,600
Electric Fund (2)	-	-	-	-	75,512	75,512
Other governmental funds (1, 3)	<u>195,748</u>	<u>76,550</u>	<u>26,284</u>	<u>25,032</u>	<u>-</u>	<u>323,614</u>
Total	<u>\$ 195,748</u>	<u>\$ 76,550</u>	<u>\$ 26,284</u>	<u>\$ 40,032</u>	<u>\$ 391,832</u>	<u>\$ 730,446</u>

(1) Transfer for general operations

(2) Transfer for capital outlay

(3) Transfer for capital improvements and debt service on municipal building

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital assets. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide these resources to cover the deficiency until other resources are received.

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
1994 Limited Tax G.O. Bonds:							
Amount of issue - \$550,000	5.60% -	\$35,000 -					
Maturing through 2011	6.20%	\$50,000	\$ 305,000	\$ -	\$ 35,000	\$ 270,000	\$ 40,000
2000 Special Assessment:							
Limited Tax G.O. Bonds:							
Amount of issue - \$905,000	4.60% -	\$45,000 -					
Maturing through 2021	5.50%	\$50,000	815,000	-	100,000	715,000	50,000
2002 Limited Tax G.O. Bonds:							
Amount of issue - \$995,000	2.65% -	\$30,000 -					
Maturing through 2022	5.15%	\$80,000	970,000	-	60,000	910,000	30,000
Installment purchase agreements:							
Amount of issue - \$79,829	3.99%						
Maturing through 2009		\$15,966	-	79,829	15,966	63,863	15,966
Accumulated compensated absences			161,866	53,061	-	214,927	125,000
Landfill postclosure care costs			1,200,000	-	60,000	1,140,000	60,000
Total governmental activities			<u>\$ 3,451,866</u>	<u>\$ 132,890</u>	<u>\$ 270,966</u>	<u>\$ 3,313,790</u>	<u>\$ 320,966</u>
<b>Business-type Activities</b>							
General obligation bonds:							
1993 Unlimited Tax G.O. Bonds:							
Amount of issue - \$1,450,000	4.60% -	\$150,000 -					
Maturing through 2008	4.90%	\$170,000	\$ 630,000	\$ -	\$ 150,000	\$ 480,000	\$ 150,000
1993 Limited Tax G.O. Bonds:							
Amount of issue - \$750,000	4.60% -	\$65,000 -					
Maturing through 2008	4.90%	\$75,000	280,000	-	70,000	210,000	65,000
1994 Special Assessment Bonds:							
Amount of issue - \$510,000	5.90% -	\$20,000 -					
Maturing through 2013	6.45%	\$25,000	270,000	-	95,000	175,000	25,000
Revenue bonds - 1995 Water Supply System Revenue Bonds:							
Amount of issue - \$550,000	6.00% -	\$25,000 -					
Maturing through 2015	6.50%	\$50,000	400,000	-	25,000	375,000	25,000
2000 Michigan Drinking Water Revolving Fund Program, \$9,200,000 available to be drawn, of which \$8,961,230 has been drawn down, maturing through 2023	2.50%	\$125,000 - \$385,000	8,575,382	19,618	375,000	8,220,000	385,000
Installment purchase agreements:							
Amount of issue - \$435,000		\$83,157 -					
Maturing through 2018	4.80%	\$90,312	260,618		170,306	90,312	90,312
Accumulated compensated absences			105,076	-	10,230	94,846	94,846
Total business-type activities			<u>\$ 10,521,076</u>	<u>\$ 19,618</u>	<u>\$ 895,536</u>	<u>\$ 9,645,158</u>	<u>\$ 835,158</u>

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 135,966	\$ 96,527	\$ 232,493	\$ 740,312	\$ 257,207	\$ 997,519
2007	140,965	90,286	231,251	685,000	239,182	924,182
2008	145,966	82,989	228,955	700,000	214,307	914,307
2009	150,966	76,640	227,606	465,000	194,986	659,986
2010	140,000	68,873	208,873	480,000	181,123	661,123
2011-2015	535,000	256,155	791,155	2,565,000	685,076	3,250,076
2016-2020	555,000	128,009	683,009	2,590,000	330,539	2,920,539
2021-2023	155,000	12,066	167,066	1,325,000	41,820	1,366,820
Total	<u>\$ 1,958,863</u>	<u>\$ 811,545</u>	<u>\$ 2,770,408</u>	<u>\$ 9,550,312</u>	<u>\$ 2,144,240</u>	<u>\$ 11,694,552</u>

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2005, \$600,000 of bonds outstanding are considered defeased.

**Landfill Postclosure Care Costs** - State and federal laws and regulations require the City to perform some remediation to the landfill site and to place a final cover on the landfill, as it no longer has the capacity to accept solid waste. Additionally, the City is required to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. As of February 28, 1995, all costs of closure have been incurred. Future monitoring costs are estimated by the City to approximate \$60,000 per year and the cost attributable to the remaining 20 years has been recorded as long-term debt. The City currently maintains a letter of credit in the amount of \$380,000 in favor of the Michigan Department of Natural Resources to be used to fund monitoring and remediation costs if they are not completed by the City. The City does not anticipate that the State of Michigan will utilize these funds.



# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

**Component Units** - Long-term obligation activity for the component units can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds:							
1991 Downtown Development Limited							
Tax G.O. Bonds:							
Amount of issue - \$995,000							
Maturing through 2005	5.00%	\$125,000	\$ 125,000	\$ -	\$ 125,000	\$ -	\$ -
2000 Downtown Development Limited							
Tax G.O. Bonds:							
Amount of issue - \$995,000	4.90% -	\$55,000 -					
Maturing through 2011	5.20%	\$150,000	850,000	-	170,000	680,000	120,000
Total component units			\$ 975,000	\$ -	\$ 295,000	\$ 680,000	\$ 120,000

Annual debt service requirements to maturity for the above component unit bond and note obligations are as follows:

	Principal	Interest	Total
2006	\$ 120,000	\$ 34,718	\$ 154,718
2007	130,000	28,718	158,718
2008	135,000	22,153	157,153
2009	145,000	15,268	160,268
2010	150,000	7,800	157,800
Total	\$ 680,000	\$ 108,657	\$ 788,657

**No Commitment Debt** - Excluded from the City's financial statements are bonds issued by the Economic Development Corporation (the "Corporation"), a component unit of the City of Chelsea, Michigan. The amount of bonds outstanding at December 31, 2004, the most recent audit, totaled \$17,495,000.

### Note 6 - Long-term Debt (Continued)

The Corporation is organized pursuant to State of Michigan Act. No. 338 of 1974, as amended. The primary purpose of the Corporation is to encourage and assist commercial and industrial enterprises to locate and expand facilities and services to the City of Chelsea, Michigan and its residents. This purpose is accomplished by the issuance of Limited Obligation Revenue Bonds by the Corporation. The Corporation issues Limited Obligation Revenue Bonds and, in effect, loans the bond proceeds to commercial and industrial enterprises to finance the cost of projects to be used by such enterprises. The bonds are sometimes, but not always, collateralized by a mortgage on the project or sale/leaseback documentation. In return, the benefited enterprise agrees to pay loan repayments or lease rental in amounts sufficient to pay debt service on the bonds.

The bonds issued by the Corporation are payable solely from the net revenue derived from the respective projects.

### Note 7 - Restricted Assets

The balances of the restricted asset accounts in the business-type activities are as follows:

	Business-type Activities		
	Water	Sewer	Total
Cash and cash equivalents	\$ 202,575	\$ 58,998	\$ 261,573
Assessments receivable	-	173,492	173,492
Property tax receivable	-	1,046	1,046
Total restricted assets	<u>\$ 202,575</u>	<u>\$ 233,536</u>	<u>\$ 436,111</u>

These assets are restricted for debt payments.

Current liability payable from restricted assets consists of the current portion of bonds payable relating to the construction of the Freer Road Sanitary Sewer System in the amount of \$175,000.

### **Note 8 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property loss, torts, errors and omissions, workers' compensation, and unemployment compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League Liability and Property Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and pay member claims in excess of deductible amounts.

### **Note 9 - Defined Benefit Pension Plan and Postretirement Benefits**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MMERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by resolution of the City Council and negotiation with the City's competitive bargaining units.

**Annual Pension Costs** - For the sixteen-month period ended June 30, 2005, the City's annual pension cost of \$366,868 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of actuarial valuations at December 31, 2002 and 2003, using the entry age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, depending on age, attributable to seniority/merit, and (c) the assumption that benefits will increase 2.5 percent per year (annually) after retirement, for certain retirees. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period ranges from 26 to 28 years.

### Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year trend information is as follows:

	Sixteen- month Period Ended June 30	Fiscal Year Ended February	
	2005	2004	2003
Annual pension costs (APC)	\$ 366,868	\$ 271,348	\$ 232,515
Percentage of APC contributed	100%	100%	100%
	December 31		
	2004	2003	2002
Actuarial value of assets	\$ 4,685,122	\$ 4,405,088	\$ 3,967,472
Actuarial Accrued Liability (AAL) (entry age)	\$ 7,963,857	\$ 7,162,947	\$ 6,182,505
Unfunded AAL (UAAL)	\$ 3,278,735	\$ 2,757,859	\$ 2,215,033
Funded ratio	59%	61%	64%
Covered payroll	\$ 1,464,496	\$ 1,497,799	\$ 1,675,048
UAAL as a percentage of covered payroll	224%	184%	132%

### Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees hired after September 9, 1997 and full-time employees hired prior to September 9, 1997 who elect to convert to this plan from the defined benefit pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by resolution of the City Council and negotiation with the City's competitive bargaining units, the City contributes 7 percent of employees' gross earnings. Employees may contribute to the plan additional amounts on an after-tax basis. In accordance with these requirements, the City contributed \$107,231 and employees contributed \$16,004 during the current year.

### **Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)**

**Postemployment Benefits** - The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts and City Council resolution. Currently, nine retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$61,000.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rule will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 10 - Joint Ventures**

The City is a member of the Chelsea Area Fire Authority (the "Fire Authority"), which provides services to the residents of the City of Chelsea, the Township of Lima, the Township of Lyndon, the Township of Sylvan, and the Township of Waterloo. The Fire Authority began operations in June 1999, and the participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$267,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Chelsea Area Fire Authority can be obtained from the administrative offices at 200 West Middle, Chelsea, Michigan 48118.

# City of Chelsea, Michigan

## Notes to Financial Statements June 30, 2005

### Note 10 - Joint Ventures (Continued)

The City is also a member of the Chelsea Area Construction Agency (the "Agency"), which provides building, electrical, mechanical, and plumbing permits, along with other related services, to the residents of the City of Chelsea, the Township of Dexter, the Township of Lima, the Township of Lyndon, the Township of Sylvan, and the Township of Sharon. The Agency began operations in March 2000 and is a self-funded operation. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Chelsea Area Construction Agency can be obtained from the administrative offices at 18027 Old U.S. 12, Suite 100, Chelsea, Michigan 48118.

The investments in joint ventures are recorded in the statement of net assets as follows:

Chelsea Area Fire Authority	\$ 160,370
Chelsea Area Construction Agency	<u>132,928</u>
Total	<u>\$ 293,298</u>

### Note 11 - Restatement of Net Assets

During the year, the City corrected its accounting for capital assets in the Electric Fund. As a result, beginning of the year net assets were restated as follows:

	<u>Electric Fund</u>
Net assets - February 28, 2004, as previously reported	\$ 3,764,209
Capital assets - Net	<u>311,750</u>
Net assets - February 28, 2004, as restated	<u>\$ 4,075,959</u>

### Note 12 - Contingencies

During 1998, the City was contacted by the Michigan Department of Environmental Quality regarding possible groundwater contamination as a result of a closed municipal landfill. Financial responsibility, if any, for resulting damages will be shared with surrounding townships. The likelihood of loss cannot yet be determined; however, based on investigation by the City's consultants, contamination of the groundwater was not apparent.

## **Required Supplemental Information**

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# City of Chelsea, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Sixteen-month Period Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes:				
Real and personal property taxes	\$ 2,159,445	\$ 2,160,135	\$ 1,978,926	\$ (181,209)
Payments in lieu of taxes	458,250	528,756	529,431	675
Total property taxes	2,617,695	2,688,891	2,508,357	(180,534)
State sources:				
Revenue sharing	505,000	505,000	546,896	41,896
Liquor license fees	4,600	5,000	5,089	89
Total state sources	509,600	510,000	551,985	41,985
Licenses and permits:				
Building permits	55,000	55,000	49,581	(5,419)
Zoning changes	97,000	117,300	116,651	(649)
Total licenses and permits	152,000	172,300	166,232	(6,068)
Charges for services:				
Recycling	2,300	5,200	5,764	564
Other	21,700	12,000	4,863	(7,137)
Total charges for services	24,000	17,200	10,627	(6,573)
Fines and forfeitures	28,000	28,000	21,448	(6,552)
Interest	25,000	28,000	30,184	2,184
Other revenue:				
Reimbursement	65,000	124,000	142,801	18,801
Sale of property	-	6,000	6,000	-
Other	46,800	54,800	67,579	12,779
Total other revenue	111,800	184,800	216,380	31,580
Transfers in	15,000	15,000	28,720	13,720
Total revenue	<u>\$ 3,483,095</u>	<u>\$ 3,644,191</u>	<u>\$ 3,533,933</u>	<u>\$ (110,258)</u>



# City of Chelsea, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Sixteen-month Period Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures</b>				
General government:				
Village Council	\$ 24,700	\$ 24,700	\$ 23,788	\$ 912
Executive	184,300	189,000	188,467	533
Elections	13,200	12,500	10,525	1,975
General and administrative	564,350	629,852	603,248	26,604
Other	89,845	85,845	85,028	817
Total general government	876,395	941,897	911,056	30,841
Public safety:				
Police	1,025,600	1,151,440	1,120,422	31,018
Civil defense	19,000	19,500	19,419	81
Total public safety	1,044,600	1,170,940	1,139,841	31,099
Public works:				
Department of Public Works	525,200	565,820	620,684	(54,864)
Recycling	31,000	31,000	29,281	1,719
Total public works	556,200	596,820	649,965	(53,145)
Parks and recreation	54,600	54,600	45,436	9,164
Planning and zoning	248,300	247,250	229,142	18,108
Employee benefits and insurance	703,000	789,000	783,770	5,230
Total expenditures	<b>\$ 3,483,095</b>	<b>\$ 3,800,507</b>	<b>\$ 3,759,210</b>	<b>\$ 41,297</b>

# City of Chelsea, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund Major Roads Fund Sixteen-month Period Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>				
State sources	\$ 330,000	\$ 331,200	\$ 337,147	\$ 5,947
Interest and other	7,000	21,000	29,060	8,060
Transfers in	302,600	302,600	302,600	-
Total revenues	<u><u>\$ 639,600</u></u>	<u><u>\$ 654,800</u></u>	<u><u>\$ 668,807</u></u>	<u><u>\$ 14,007</u></u>
<b>Expenditures</b>				
Construction	\$ 141,100	\$ 47,000	\$ 62,094	\$ (15,094)
Routine maintenance	60,500	70,500	73,476	(2,976)
Traffic services	9,350	8,850	6,793	2,057
Winter maintenance	19,400	19,550	18,841	709
Professional services	1,200	1,200	1,030	170
Surface maintenance	1,000	1,000	30	970
Sweeping and flushing	1,800	1,800	2,568	(768)
Trees and shrubs	300	300	561	(261)
Drainage and backsloping	1,500	1,700	511	1,189
Traffic signs and signals	2,760	5,960	7,149	(1,189)
Winter	4,400	10,750	10,542	208
Miscellaneous	3,240	6,800	6,687	113
Transfers out	-	-	76,550	(76,550)
Total expenditures	<u><u>\$ 246,550</u></u>	<u><u>\$ 175,410</u></u>	<u><u>\$ 266,832</u></u>	<u><u>\$ (91,422)</u></u>

# City of Chelsea, Michigan

## Note to Required Supplemental Information Sixteen-month Period Ended June 30, 2005

**Budgetary Information** - The annual budgets are prepared by the City manager and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 is not known. During the current year, the budget was amended in a legally permissible manner.

The budgets have been prepared in accordance with generally accepted accounting principles for the General Fund and all Special Revenue Funds, with the exception that operating transfers have been included in the "revenue" and/or "expenditures" categories, rather than as "other financing sources (uses)."

The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Comparison of actual results of operations to the budgets of the General Fund and Major Roads Fund, as adopted by the City Council, are included in the required supplemental information of the basic financial statements. A comparison of the actual results of operations to the nonmajor Special Revenue Funds budgets, as adopted by the City, is available at the City offices for inspection.

**Excess of Expenditures Over Budgeted Amounts** - The City had the following significant expenditure budget overruns:

	Amended Budget	Actual	Variance
General Fund - Public works (1)	\$ 565,820	\$ 620,684	\$ (54,864)
Major Roads Fund:			
Construction (1)	47,000	62,094	(15,094)
Operating transfers out (2)	-	76,550	(76,550)

(1) Variance resulting from additional construction expenses related to road improvements

(2) Variance resulting from transfers for street improvements

## **Other Supplemental Information**

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# City of Chelsea, Michigan

	Special Revenue			
	Local Roads	Municipal Road Fund	Emergency 911	Drug Law Enforcement
<b>Assets</b>				
Cash and investments	\$ -	\$ 527,682	\$ 124,654	\$ 40,842
Receivables:				
Taxes	-	4,185	-	-
Customers	-	-	-	-
Due from other funds	79,183	50,165	-	-
Due from other governmental units	10,283	-	-	-
Total assets	<u>\$ 89,466</u>	<u>\$ 582,032</u>	<u>\$ 124,654</u>	<u>\$ 40,842</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 1,804	\$ -	\$ -
Accrued and other liabilities	-	-	-	-
Due to other funds	89,466	-	-	-
Total liabilities	89,466	1,804	-	-
<b>Fund Balances</b>				
Reserved:				
Streets and highways	-	580,228	-	-
Law enforcement	-	-	124,654	40,842
Solid waste activities	-	-	-	-
Storm water utility	-	-	-	-
Debt service	-	-	-	-
Unreserved and undesignated	-	-	-	-
Total fund balances	-	580,228	124,654	40,842
Total liabilities and fund balances	<u>\$ 89,466</u>	<u>\$ 582,032</u>	<u>\$ 124,654</u>	<u>\$ 40,842</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005**

Funds			Capital Project Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Capital Contingency	Solid Waste Facility	Storm Water Utility	Municipal Building	Building Authority	
\$ 117,712	\$ 149,233	\$ 43,518	\$ 266,069	\$ 336,100	\$ 1,605,810
-	1,199	-	-	872	6,256
-	11,538	-	-	-	11,538
254,328	474	-	-	-	384,150
-	5,472	-	-	-	15,755
<b>\$ 372,040</b>	<b>\$ 167,916</b>	<b>\$ 43,518</b>	<b>\$ 266,069</b>	<b>\$ 336,972</b>	<b>\$ 2,023,509</b>
\$ -	\$ 8,847	\$ 1,000	\$ -	\$ 376	\$ 12,027
-	21,305	563	-	-	21,868
-	-	-	-	4	89,470
-	30,152	1,563	-	380	123,365
-	-	-	-	-	580,228
-	-	-	-	-	165,496
-	137,764	-	-	-	137,764
-	-	41,955	-	-	41,955
-	-	-	-	336,592	336,592
372,040	-	-	266,069	-	638,109
372,040	137,764	41,955	266,069	336,592	1,900,144
<b>\$ 372,040</b>	<b>\$ 167,916</b>	<b>\$ 43,518</b>	<b>\$ 266,069</b>	<b>\$ 336,972</b>	<b>\$ 2,023,509</b>

# City of Chelsea, Michigan

	Special Revenue			
	Local Roads	Municipal Road Fund	Emergency 911	Drug Law Enforcement
<b>Revenue</b>				
Property taxes	\$ -	\$ 310,905	\$ -	\$ -
State sources	85,702	-	-	-
Local sources	-	-	33,541	-
Charges for services	-	-	-	-
Interest and other	6	8,678	1,691	775
Total revenue	85,708	319,583	35,232	775
<b>Expenditures</b>				
General government	1,030	-	-	1,210
Public works:				
Street construction	86,092	-	-	-
Street routine maintenance	158,242	-	-	-
Traffic services	9,181	-	-	-
Winter maintenance	36,449	-	-	-
Operation and maintenance	-	-	27	-
Total public works	289,964	-	27	-
Debt service	-	-	-	-
Total expenditures	290,994	-	27	1,210
<b>Excess of Revenue Over (Under) Expenditures</b>	(205,286)	319,583	35,205	(435)
<b>Other Financing Sources (Uses)</b>				
Transfers in	198,453	-	-	-
Transfers out	-	(316,320)	-	-
Total other financing sources (uses)	198,453	(316,320)	-	-
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	(6,833)	3,263	35,205	(435)
<b>Fund Balances - Beginning of period</b>	6,833	576,965	89,449	41,277
<b>Fund Balances (Deficit) - End of period</b>	\$ -	\$ 580,228	\$ 124,654	\$ 40,842

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Sixteen-month Period Ended June 30, 2005**

Funds			Capital Project Fund	Debt Service Funds	
Capital Contingency	Solid Waste Facility	Storm Water Utility	Municipal Building	Building Authority	Total Nonmajor Governmental Funds
\$ -	\$ 89,007	\$ -	\$ -	\$ 65,075	\$ 464,987
-	-	-	-	-	85,702
-	-	-	-	-	33,541
-	486,410	168,835	-	-	655,245
<u>7,125</u>	<u>7,920</u>	<u>116</u>	<u>1,837</u>	<u>2,432</u>	<u>30,580</u>
7,125	583,337	168,951	1,837	67,507	1,270,055
59	288,550	-	4,680	-	295,529
-	-	-	-	-	86,092
-	-	-	-	-	158,242
-	-	-	-	-	9,181
-	-	-	-	-	36,449
<u>-</u>	<u>240,795</u>	<u>60,404</u>	<u>-</u>	<u>-</u>	<u>301,226</u>
-	240,795	60,404	-	-	591,190
<u>-</u>	<u>-</u>	<u>-</u>	<u>125,410</u>	<u>61,843</u>	<u>187,253</u>
<u>59</u>	<u>529,345</u>	<u>60,404</u>	<u>130,090</u>	<u>61,843</u>	<u>1,073,972</u>
7,066	53,992	108,547	(128,253)	5,664	196,083
262,238	-	-	125,161	-	585,852
<u>(337,750)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(654,070)</u>
<u>(75,512)</u>	<u>-</u>	<u>-</u>	<u>125,161</u>	<u>-</u>	<u>(68,218)</u>
(68,446)	53,992	108,547	(3,092)	5,664	127,865
<u>440,486</u>	<u>83,772</u>	<u>(66,592)</u>	<u>269,161</u>	<u>330,928</u>	<u>1,772,279</u>
<u>\$ 372,040</u>	<u>\$ 137,764</u>	<u>\$ 41,955</u>	<u>\$ 266,069</u>	<u>\$ 336,592</u>	<u>\$ 1,900,144</u>